

Minutes for Audit Committee Meeting of February 5, 2009  
Held at the Fire Station Meeting Room  
Approved February 23, 2009

Members Present: Ernest Welker (EW), Chair; Ray McCarthy (RM); Glenn Rosenberg (GR)  
Members Absent: Paul Smith

Others: Finance Director Paul Pasterczyk (PP); Thomas Scanlon, Sr., Thomas Scanlon, Jr., and Greg Winters of Scanlon & Associates (SA).

The Chair called the meeting to order at 7:00 p.m.

Town's Independent Auditor Reports for the Year Ended June 30, 2008

GR turned the meeting over to SA to review and discuss their draft audit reports for the fiscal year ended June 30, 2008. The draft reports being reviewed included basic financial statements, accompanying footnotes and the management letter. The reports being presented to the AC were still in draft form however would be submitted to the Select Board in the near future for formal acceptance. Once submitted to the Select Board the reports are considered public documents.

Review of the Draft Management Letter (ML)

The ML identified opportunities for strengthening internal controls and operating efficiency within the Town. The ML summarized SA comments and recommendations and also contained responses from the appropriate Town area/official. In the opinion of SA the items identified in the ML were not of a high risk or material exposure but were of a medium-to-low risk level. For the year ended June 30, 2008 SA identified 3 areas for improved internal controls and the findings were as follows –

*Finding 2008-1 Department of Public Works (DPW) Collections* – SA reviewed the billing and collection process of the water and sewer operations at the DPW and identified some weaknesses related to the collection of some minor fees and the safeguarding of those funds on a regular basis. The minor fees collected by the DPW are not those collected by the Collector's Office. The Town's response to this comment was to institute better controls, make deposits on a regular basis and have the Finance Director perform periodic examinations.

*Finding 2008-2 Review of Payroll Transactions* – SA reviewed the human resource and payroll functions as it relates to entering new employee payroll data into the system and noted a weakness in the segregation of those duties. The Human Resource Manager was processing, validating and approving all data entered into the payroll system. The Town's response to this comment was to institute an independent signature and approval on the accuracy of the data being entered into the payroll system.

*Finding 2008-3 Encumbrance Closing Procedure* – SA discovered a process issue in the general ledger in that the system was closed however the encumbrance control account on the computerized balance sheet was not in agreement with the list of encumbrances provided by the Finance Department. The process issue was related to the closing process for open purchase orders and encumbrances without purchase orders and how they needed to be handled in the system to bring the ledger into agreement. The Town's response to this comment was to contact the software vendor and review proper year-end close out procedures and has since rectified this issue.

**SA reviewed 2 prior year ML findings that have been partially rectified –**

*Finding 2007-1 Accounting/Financial Policies and Procedures Manual* – SA noted that the Town does not have a current and comprehensive accounting policy and procedure manual which essentially make up the Town's internal control system. The Town responded that they do have current policy and procedure documents however the process of developing a comprehensive document is on-going.

*Finding 2007-9 Inventories* – SA recommended that the Town maintain an inventory of small items that do not qualify for fixed assets (items >\$10,000). The Town responded by developing a partial inventory of small items. An updated inventory of non-school technology assets will be completed by March 31, 2009. It is yet to be determined how the School Department will be able to complete the recommendation.

EW commented that proper follow-up action from the School Department was required on both of these findings and that the AC (GR) would take the necessary follow-up steps with the School Business Manager and Superintendent regarding these comments.

**SA reviewed 1 prior year ML finding that was not rectified –**

*Finding 2007-6 Fraud Risk Assessment – Implement Regular Department Internal Audits* – SA recommended the Town look into hiring an individual to implement a procedure internally to perform periodic internal audits of the Town's departmental records. This would result in improved oversight and should reduce the risk of errors and irregularities from occurring and going undetected. The Town has not implemented this recommendation due primarily to funding limitations.

To wrap-up the review of the draft ML, **SA highlighted 6 prior year ML findings that were rectified.**

**Review of the Draft Financial Statements and Accompanying Schedules & Footnotes**

SA briefly reviewed the Financial Statements (FS) and the supplemental schedules. Areas of focus included the Town's receivable balances and reserve for uncollectible accounts. SA highlighted on page 36 under the section Custodial Credit Risk – Deposits that approximately \$5.2 million was exposed to custodial credit risk as uninsured and uncollateralized. SA stated that it wasn't an unusual amount of risk compared to other municipalities. EW reviewed pages 36 and 37 referencing the Investment Policy and the current effort to strengthen the policy for the Town. After a general review of the FS no other significant issues were addressed.

**Audit Services Contract**

SA submitted two proposals to the AC to extend their current contract beyond the June 30, 2009 fiscal year end. One proposal was for a one-year extension (for the FY2010 audit) at a fee of \$26,000, \$3,000 less than the \$29,000 annual fee of the expiring contract. The other proposal was for a 2 year extension (for FY 2010 and FY 2011) at an annual fee of \$25,000 and a reduction in FY 2009 contract price to \$25,000. This proposal represented a total potential savings to the Town of \$12,000 for audit services for FY2009 through FY2011.

After SA representatives departed the meeting, AC members discussed the proposals and voted unanimously to recommend SA's two-year extension proposal (plus the FY09 fee reduction) to the Select Board.

As a follow-up action the AC will develop a presentation with their recommendation on the Town's audit service contract to be presented to the Select Board at an upcoming meeting. RM agreed to develop the presentation and talking points and would share a draft with other AC members for their feedback and comments.

Also during discussion, PP said that he was fully satisfied with SA's services and could support the 2-year extension offer.

Other Business

Minutes of the January 14, 2009 meeting were approved.

EW stated that the AC status report to the Select Board was still in draft form and would be circulated to other AC members before the due date of February 13, 2009.

Date of next meeting scheduled to be February 23, 2009, Fire Department Meeting Room.

Meeting adjourned 9:15 p.m.

Respectively submitted,  
Ray McCarthy, Secretary